

**STATE OF MAINE
122nd LEGISLATURE
SECOND REGULAR SESSION**

**Final Report
of the
COMMISSION TO REFORM THE
STATE BUDGET PROCESS**

February 2006

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The Commission to Reform the State Budget Process was created by P.L. 2005, c. 386, Part O in the 1st Special Session of the 122nd Legislature. The Commission consisted of 12 members. The members included: the Commissioner of Administrative and Financial Services; the State Budget Officer; the State Controller; the Director of the State Planning Office; two members of the Senate, appointed by the President of the Senate, one from the political party holding the majority of seats in the Senate and one from the political party holding the majority of the remainder of the seats in the Senate; two members of the House of Representatives, appointed by the Speaker of the House, one from the political party holding the majority of seats in the House and one from the political party holding the majority of the remainder of the seats in the House; the Director of the Office of Fiscal and Program Review; and three members of the public, appointed by the Governor.

Problems presented

The duties of the Commission were as follows:

- The establishment of a "zero-based" budget in which the initial funding amount for each program in State Government is assumed to be zero and all proposed expenditures for the program are justified in the budget;
- Modifying the "current services" format used by departments and agencies by including a percent reduction from the previous year's appropriation or allocation and requiring additional expenditures for the program be justified in the budget; and
- Proposing adjustments to the current "performance-based" budgeting in which funding is tied to measures that indicate how well a program is meeting the goals established.

The Commission spent several meetings discussing the format of the current budget document and budget bill. There was consensus among the group that the budget bill should be presented in a format that allowed the Legislature and the public to understand in a much clearer way what was actually being proposed by Administrations. Several recommendations will follow that accomplish that objective.

Additionally, the Commission spent considerable time discussing how the bill should be constructed by each Administration. The group agreed that the current process should be changed. Specific comments cited during the initial meeting included:

- The Current Services budget builds on historical decisions made by prior Administrations and Legislatures instead of looking towards the future;
- The current process makes it difficult to “get your arms around” the All Other budget (85% of GF);

- Incremental budgeting is not the right way to go in planning for the long-term;
- Current process so time consuming that you barely have time to implement the current budget before you begin to work on the next one; and
- Too much paperwork and information included in the Current Services budget. Not enough time to fully engage departments and agencies.

The current process of budgeting has been around since the mid 1900's with very minor adjustments occurring throughout the years.

Current Process¹

On or before September 1st of even numbered years, the Judicial Branch, the Legislative Branch and each Executive Branch department or agency prepares a budget request for the next two fiscal years. The biennial budget requests identify individual programs and divisions of each department and the estimated spending level for each for the next two fiscal years. The budget requests are submitted via the Department of Administrative and Financial Services to the Governor, who may revise them.

The requests are then compiled into the state budget document by the Department of Administrative and Financial Services. This document is printed and distributed early in the first regular session to legislators and others.

The state budget document is the financial plan for state government for each year of the ensuing biennium and consists of two components. (See 5 MRSA § 1664.) The first component contains the Governor's budget message, a general budget summary (balancing expenditures and sources of funding for the upcoming biennium and comparing those figures to figures for the last and current fiscal years for each state program) and an estimate of losses in revenue anticipated during the next biennium due to tax and income exclusions, exemptions and deductions.

The second component of the state budget document contains a detailed budget estimate of expenditures and revenues, a statement of state bonded indebtedness showing redemption requirements, authorized and unissued debt and the condition of sinking funds.

Legislation comprising the budget request is divided into two major categories. The Part I Budget, or Current Services Budget, consists of requests for money to continue existing programs as authorized by law, approved and funded collective bargaining agreements or other requirements. The Part II Budget consists of adjustments, reductions and requests for money for new and expanded programs.

¹ Legislative Handbook, 2004

Beginning in the 2002-2003 biennium, the budget received by the 120th Legislature from the Governor used the performance budgeting methodology.

Potential Options Explored

Beginning at its first meeting, the Commission began to focus on alternatives to the Current Services model. Specifically stated in the legislation that created the Commission was the “zero-based budget.” The notion of a zero-based budget demands that a government program or programs be justified in each fiscal year, as opposed to simply basing budgeting decisions on a previous year’s funding level. Each budget cycle a program director or Commissioner would need to justify the entire budget from \$0. The zero-based budget is the polar opposite of the Current Services budget. While the notion of justifying each dollar is a noble one, in reality the implementation phase is nearly impossible. Zero-based budgeting has its origins back in the 1970’s and has largely failed at the state level due to the time and costs required to piece together a truly “zero-based” budget.

While the Commission dismissed the possibility of implementing a zero-based budget process early in its deliberations, the Commission did begin to focus in on 4 specific options. The proposals included:

Option A: Option A represented the least change of the 4 options. The proposal made almost no change to the current process but instead focused on providing a more “user-friendly format.”

In the current budget process, a program’s Current Services budget is included in “Part A.” This represented the program’s previous funding level, plus any inflationary factor that may have been included. If the Administration proposed any “adjustments” to the funding level – typically reductions to bring the budget into balance – these appear in “Part B.” Because the biennial budget contains hundreds of programs, it is often the case that to find the specific funding level for a program the reader has to first locate the program in Part A of the budget, fast forward several hundred pages in the document to find any Part B adjustments, and finally subtract the adjustment from the base funding level to come up with the current funding level.

Option A proposed to combine Parts A and B together to present a complete picture of a program’s funding. For example:

BUDGET - BUREAU OF THE 0055

What the Budget purchases: The Bureau of Budget exists to provide budget and position planning, analysis and control in support of gubernatorial objectives and legislative intent. This role represents a balanced approach for carrying out the program initiative of the Executive within the limits of legislative oversight for the purpose of achieving the most effective program outcomes and results within available budget resources.

	2003-04	2004-05	2005-06	2006-07
Program Summary – GENERAL FUND				
Positions – LEGISLATIVE COUNT	12,000	12,000	12,000	12,000
Positions – FTE COUNT	6,444	1,960	1,600	1,600
Personal Services	928,312	990,872	1,015,684	1,049,799
All Other	132,655	175,015	87,412	90,135
Total	1,060,967	1,165,887	1,103,096	1,139,934

Program Summary – HIGHWAY FUND - Informational

Positions – LEGISLATIVE COUNT	1,000	1,000	1,000	1,000
Personal Services	66,098	69,624	76,740	82,233
All Other	8,000	8,105	8,219	8,350
Total	74,098	77,729	84,959	90,583

	2005-06	2006-07
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New Initiative: Reduces funding previously used to pay for receptionist duties that will be performed with existing staff. Reorganizes one Personnel Payroll Technician position to one Clerk Typist III position in the Division of Financial and Personnel Services in fiscal year 2006-07.

GENERAL FUND

All Other		(5,646)	(5,646)
Total		(5,646)	(5,646)

	2003-04	2004-05	2005-06	2006-07
Revised Program Summary – GENERAL FUND				
Positions – LEGISLATIVE COUNT	12,000	12,000	12,000	12,000
Positions – FTE COUNT	6,444	1,960	1,600	1,600
Personal Services	928,312	990,872	1,015,684	1,049,799
All Other	132,655	175,015	81,766	84,489
Total	1,060,967	1,165,887	1,097,450	1,134,288

Revised Program Summary – HIGHWAY FUND - Informational

Positions – LEGISLATIVE COUNT	1,000	1,000	1,000	1,000
Personal Services	66,098	69,624	76,740	82,233
All Other	8,000	8,105	8,219	8,350
Total	74,098	77,729	84,959	90,583

While there was agreement within the Commission that the formatting change in Option A was the right way to go, the group also agreed that this option did not present enough of a change from the “Current Services” budget, with its built in growth assumptions, to warrant a full recommendation. However the group did agree that combining Part A and Part B was an excellent first step and including the same suggestion in each of the 4 options and ultimately as part of its final recommendation.

Option B: Option B adopts the formatting change discussed above. As stated earlier in the report, a lot of the Commission’s frustration with the current budget process focused on the automatic inflationary adjustments that occur to the All Other line. Because the All Other budget represents approximately 85% of the overall budget of state government, even an inflationary adjustment of a couple of percentage points on a base budget of nearly \$5.5 billion represents substantial growth. This frustration ultimately shaped the Commission’s final recommendations.

Option B draws a new distinction between the Part I and Part II budgets. As noted above, the Part I Budget, or Current Services Budget, consists of requests for money to continue existing programs as authorized by law, approved collective bargaining agreements or other requirements. The Part II Budget consists of adjustments, reductions and requests for money for new and expanded programs. Option B instead changes the definition of the Part I Budget to include only those programs funded in the previous budget at their previous years funding level. No inflationary adjustments are included. Any amount above flat funding, except those for Personal Services², need to be included in the Part II Budget.

The advantage of this proposal is that it establishes a clear threshold over which additional spending must be justified. It also funds the basic services of state government in a “no frills” Part I budget – similar to a continuing resolution – leaving major budget decisions for the Part II budget.

An example of this format is included in Attachment 1.

Option C: Option C also includes the formatting changes discussed earlier and is very similar to Option B with one major exception. Instead of including any adjustments over flat funding in the Part II Budget, this proposal recommends a single budget. Instead of a Part I and Part II Budget, a single balanced budget is put forth by the Administration that reflects their full picture of priorities. Individual programs would have a base funding level based on the previous year’s funding level and any adjustments, inflationary or otherwise, would appear as separate initiatives.

Option D: Option D represented the most sweeping of the proposals. This option eliminates everything associated with the current process. To sum it up, “the budget is what it is.” The Budget is balanced to available resources with no regard to what may or may not have been funded by a previous Legislature. It again provides for a single balanced budget reflecting priorities. Any program funded in a prior budget could be expanded or eliminated entirely based on recommendations from the Administration. While this proposal generated much discussion, it was quickly ruled out as “unworkable.”

² Because the Budget and Financial Management System is designed to automatically calculate the costs of a position based on the incumbent in that position and his/her specific benefits, applying “flat funding” to Personal Services would require very costly programming changes.

Final Recommendations:

The final recommendation of the Commission to Reform the State Budget Process is that the Governor and Legislature adopt Option C. This proposal includes combining the current Part A and Part B sections of the budget, as well as combining the Part I and Part II budgets. The Commission agreed that when combined with the formatting changes included in Attachment A, a more complete picture of the Budget is presented to the public and the Legislature.

While the Commission felt that a true zero-based budget was unmanageable, the group does endorse a periodic review of all government programs to determine appropriate funding levels. The Commission considered the current Government Evaluation Act (GEA) as a tool for that exercise. Under current law, each program is subject to a review by the appropriate committee of jurisdiction every 10 years. However, the Commission questioned whether the current review process would allow for the adequate time necessary to do a thorough analysis of each program. The Commission recommends that Legislative Leadership consider placing a renewed emphasis on the GEA and consider whether top to bottom budget reviews on a periodic basis are an appropriate tool.

As part of the review process, the Commission was also charged with examining the State's current performance budgeting system. The group unanimously recommends the current process be eliminated and perhaps a new group be formed to explore useful measurement tools. While the Commission felt that measurement tools are an important item for both program managers and policy makers, the current process does not provide the adequate flexibility necessary to produce meaningful results. Specific examples included a standard number of measurements regardless of program size and the elimination of those measurements from the Legislature's working document. The group does feel that performance measures can serve a meaningful purpose but that more work needs to be done than time allowed.

Other Recommendations:

While reviewing the State's budget process, the Commission also recommends several clarifications or deletions to the current statutory language. These suggestions are consistent with the intent of the Commission to provide a clearer picture of Maine's budget. In many cases, these suggestions are simply eliminating duplicative or unnecessary requirements.

The Commission also discussed how employee reclassifications should appear in the new format. Ultimately the Commission agreed that reclassifications will continue to appear in a separate section of the bill.

Summary:

This report includes the statutory recommendations of the Commission to Reform the State Budget Process. The purpose of these legislative changes is to create a budget document that is more useful throughout the budget deliberations by the Legislature and to adjust the statutes to reflect the recommended change in the budgeting methodology.

The Commission has recommended a shift in the starting point for the biennial budget from the traditional current services model to a modified flat funded model. Instead of building from prior biennium requests increased by an inflation factor, requests for appropriations and allocations start from authorized positions and flat funded non-personal services appropriations and allocations. Increases from those “flat-funded” amounts would need to be justified and the initiatives presented in the unified budget bill.

Recommended Statutory Changes

Sec. 1. 5 MRSA 1664 is repealed and the following enacted in its place:

§1664. Form of budget document

1. Form. The state budget document, setting forth a 4-year financial plan for the State Government for each fiscal year of the ensuing biennium and the following biennium, must:

A. Consist of a budget message by the Governor-elect or the Governor that outlines the 4-year financial policy of the State Government for the ensuing biennium and the following biennium, describing in connection therewith the important features of the financial plan;

B. Embrace a general budget summary setting forth the aggregate figures of the budget in such a manner as to show the balanced ~~outlines relations~~ relationship between the total proposed expenditures and the total anticipated revenues together with the other means of financing the budget for each fiscal year of the ensuing biennium, contrasted with the corresponding figures for the last completed fiscal year and the fiscal year in progress;

(1) Support the general budget summary by explanatory schedules or statements, classifying the expenditures contained therein by organization units, objects and funds, and the income by organization units, sources and funds;

(2) Include within the general budget summary a summary and details of programs funded through the Fund for a Healthy Maine, presenting the allocation requirements and projected revenues and other available resources shown in a budget fund flow statement and a comparative statement that presents income source for revenue projections and allocation estimates by program categories;

C. Include a financial plan for the following biennium with forecasted General Fund, Highway Fund and Fund for a Healthy Maine appropriation requirements and projected revenues by income sources as provided in chapter 151-B and other available resources shown in a budget fund flow statement and a comparative statement that presents income source for revenue projections and appropriation estimates by major program categories;

D. Specifically describe the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress, and the anticipated loss in revenue for each fiscal year of the ensuing biennium, caused by tax expenditures provided in Maine statutes; the term "tax expenditures" means those state tax revenue losses attributable to provisions of Maine tax laws that allow a special exclusion, exemption or deduction or provide a special credit, a preferential rate of tax or a deferral of tax liability;

E. Contain the analysis and statement required by section 1665, subsection 5;

F. Include statements of the bonded indebtedness of the State Government showing

the debt redemption requirements, the debt authorized and unissued and the condition of the sinking funds; and

G. Contain any statements relative to the financial plan that the Governor-elect, or the Governor, considers desirable, or that may be required by the Legislature.

2. Judicial department appropriations or allocations. If the Governor submits legislation setting forth appropriations or allocations for the Judicial Department that differ from the full budget request submitted by the Judicial Department under Title 4, section 24, the Governor shall simultaneously submit a report to the joint standing committees of the Legislature having jurisdiction over appropriations and financial affairs and judiciary matters explaining why the Governor's budget legislation differs from the Judicial Department's budget submission.

3. Office of Program Evaluation and Government Accountability
appropriations or allocations. If the Governor submits legislation setting forth appropriations or allocations for the Office of Program Evaluation and Government Accountability that differ from the budget request presented by the Legislative Council on behalf of that office, the Governor shall simultaneously submit a report to the Legislative Council and the Office of Program Evaluation and Government Accountability explaining why the Governor's budget legislation differs from the Legislative Council's budget request.

4. Position identification. The Governor, when submitting the budget to the Legislature, shall submit the budget document and the budget bills in a manner that identifies positions authorized by the Legislature for less than 52 weeks in a fiscal year as "Positions - Full-time Equivalent," or FTE, and positions authorized by the Legislature for 52 weeks in a fiscal year as "Positions - Legislative Count" for all funds. The State Budget Officer shall implement and administer procedures to ensure sufficient FTE and appropriation or allocation control for positions authorized by the Legislature for less than 52 weeks in a fiscal year.

5. Limit on General Fund appropriation. The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation limitation established in section 1534.

Sec. 2. 5 MRSA §1665, sub-§1 is amended to read:

1. Expenditure and appropriation requirements. On or before September 1st of the even-numbered years, all departments and other agencies of the State Government and corporations and associations receiving or desiring to receive state funds under the provisions of law shall prepare, in the manner prescribed by ~~and on blanks furnished them by the State Budget Officer,~~ and submit to the officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing biennium ~~contrasted with the corresponding figures of the last completed fiscal year and the estimated figures for the current fiscal year. The total General Fund appropriation requests submitted by each department and agency for each fiscal year may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate or 2.75%, whichever is less. For purposes of this subsection, "average~~

~~real personal income growth rate" means the average for the prior 10 calendar years, ending with the most recent calendar year for which data is available, of the percent change in personal income in this State for a calendar year, as estimated by the United States Department of Commerce, Bureau of Economic Analysis, less the percent change in the Consumer Price Index for that calendar year. For purposes of this subsection, "Consumer Price Index" has the same meaning as in Title 36, section 5402, subsection 1.~~ The expenditure estimates must be classified to set forth the data by funds, organization units, character and objects of expenditure. The organization units may be subclassified by functions and activities, or in any other manner, at the discretion of the State Budget Officer.

All departments and other agencies receiving or desiring to receive state funds from the Highway Fund shall submit to the officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing biennium that do not exceed the Highway Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate or 2.75%, whichever is less. The Highway Fund highway and bridge improvement accounts are exempt from this spending limitation.

Sec. 3. 5 MRSA §1665, sub-§2 is repealed.

Sec. 4. 5 MRSA 1666 is amended to read as follows:

§1666. Review and revision of estimates

The Governor-elect or the Governor, with the assistance of the State Budget Officer, shall review the budget estimates, altering, revising, increasing or decreasing the items of the estimates as may be determined necessary in view of the needs of the various departments and agencies and the total anticipated income of the State Government during the ensuing biennium. This review must cover all budgets regardless of source of funds, including, but not limited to, budgets related to the Highway Fund, the Federal Revenue Sharing Fund and other special revenue funds. The State Budget Officer, at the direction of the Governor-elect or the Governor shall then prepare a state budget document in the form required by law. The Governor-elect or the Governor is fully responsible for all budgetary recommendations made to the Legislature. The Governor shall transmit the budget document to the Legislature not later than the Friday following the first Monday in January of the first regular legislative session. At that time the Governor shall also transmit ~~any biennial budget bills that authorize appropriations or allocations in the upcoming biennium that the Governor may wish to propose as well as~~ any emergency bills that authorize additional appropriations or allocations in the current fiscal year that the Governor may wish to propose. A Governor-elect elected to a first term of office shall transmit the budget document to the Legislature not later than the Friday following the first Monday in February of the first regular legislative session. At that time the Governor-elect shall also transmit ~~any biennial budget bills that authorize appropriations or allocations in the upcoming biennium that the Governor may wish to propose as well as~~ any emergency bills that authorize additional appropriations or allocations in the current fiscal year that the Governor may wish to propose.

The Governor, when submitting the budget to the Legislature, shall submit the budget document and the General Fund and Highway Fund bills in a manner that identifies the gross amount of resources for each program. The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Funds, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. All programs with Highway Fund allocations and all internal service funds, enterprise funds and Other Special Revenue Funds accounts of the Department of Transportation are subject to legislative allocations and are presented for informational purposes only in the budget document and General Fund budget bills unless a separate Highway Fund budget is not enacted.

A ~~biennial~~ budget bill document transmitted by the Governor or Governor-elect must include a part that asks the Legislature whether it wishes to continue funding each individual tax expenditure, as defined in section 1664, provided in the statutes. The part must include for each tax expenditure a statutory section reference, a brief description of each tax expenditure and the loss of revenue estimated to be incurred by funding source and fiscal year. This paragraph applies with respect to the preparation of the budget document and ~~biennial budget bills~~ for the 1998-1999 biennium and thereafter.

SUMMARY

This bill implements the statutory recommendations of the Commission to Reform the State Budget Process. The purpose of these changes is to create a budget document that is more useful throughout the budget deliberations by the Legislature and to adjust the statutes to reflect the recommended change in the budgeting methodology.

This bill shifts the starting point for the biennial budget from the traditional current services model to a modified flat-funded model. Instead of building from prior biennium requests increased by an inflation factor, requests for appropriations and allocations start from authorized positions and flat-funded non-personal services appropriations and allocations. Increases from those flat-funded amounts would need to be justified and the initiatives presented in the unified budget bill.

This bill eliminates some recently enacted restrictions on departmental budget requests that are replaced by the flat-funded restrictions. It also provides more flexibility in the Governor's budget document.

This bill also changes references to the Governor's submission of a budget bill and replaces it with a reference to the budget document, which will be reformatted to mirror a new budget bill format approved by the commission.